

BETTER UTILITIES AND A BETTER CITY

THE PROBLEMS:

The water and wastewater utilities (utilities) serving the Indianapolis area require substantial investment over the next 20 years to comply with federal environmental mandates and replacement of aging infrastructure. Environmental investments include expanded wastewater treatment capacity and construction of a combined sewer overflow capture, storage and conveyance system that will prevent raw sewage overflow into the White River and other streams. Regardless of who owns the utilities, the required investments will require rate increases.

At the same time, the City of Indianapolis (the City) must invest in its crumbling non-utility infrastructure, including bridges, streets, sidewalks and parks. This crumbling infrastructure is making Indianapolis a less livable city and contributing to continued migration of people to the suburbs.



www.indy.gov/utilities

THE SOLUTIONS:

Better Utilities

By partnering with Citizens Energy Group (Citizens), the City is moving forward with innovative solutions to mitigate future increases in utility rates while generating funds for critical infrastructure projects.

Transferring the utilities to Citizens ensures these vital community assets are kept under local, public ownership to be professionally managed for community benefit. Citizens is a public charitable trust that operates the City's gas and steam utilities like a not-for-profit. Placing the utilities under the Citizens Trust will ensure that the utilities will remain locally controlled and protected from takeover by distant companies focused on shareholder returns.



Mayor Greg Ballard and a resident discusses infrastructure challenges at the Infrastructure Advisory Commission public forum on March 3, 2010

After the transfer, the utilities will be managed by a non-partisan Board of Directors. Importantly, the Citizens Board of Directors is statutorily required to focus on the needs of all affected parties, including utility customers and the community. On the contrary, if the utilities were transferred to a for-profit entity, that board would focus on the desires of profit-seeking shareholders. Further accountability is ensured because utilities under Citizens are regulated by the Indiana Utility Regulatory Commission (IURC), with oversight by the Indiana Office of Utility Consumer Counselor.

Citizens will provide outstanding service with rates 25 percent lower by 2025 than other alternatives analyzed by the City through its long-term search for solutions. These lower rates will help the City remain an affordable place to live, while enhancing economic development.

Citizens will operate with lower rates than an investor-owned entity or a newly established not-for-profit as a result of the operating synergies generated through the combining of multiple utilities and, because it is a not-for-profit, its tax-exempt status provides additional savings to ratepayers as compared to an investor-owned utility. Citizens estimates about \$40 million in annual savings through coordinating operations among the combined gas, steam, water and wastewater utilities. Citizens also generates savings through its access to tax-exempt financing not generally available to investor-owned, for-profit utilities. As a public charitable trust, Citizens ensures the resulting saving are passed on to customers.

Citizens is an industry leader for customer satisfaction and operational excellence, according to independent studies by organizations including J.D. Power & Associates. Citizens' dedicated employees will bring this same focus to the water and wastewater utilities. Veolia and United are experienced operators as well, and Citizens anticipates they will continue to play significant roles in the operations of the water and wastewater utilities. Citizens will work closely with Veolia and United on the future operations of the utilities with a focus on confirming an estimated \$40 million in annual operating synergies that have been identified.

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Better City

Indianapolis, like many U.S. cities, has failed to adequately invest in its critical infrastructure for decades. For example, needed investments include installation of a combined sewer overflow system to prevent raw sewage overflow into the White River and other streams.

Pending Board of Waterworks, Board of Public Works, City-Council Council and IURC approval, the City will receive more than \$425 million in connection with the transfer of the utilities to Citizens. Upon receipt of necessary approvals and negotiation of final agreements, the City will receive a payment from Citizens in the amount of \$262.6 million (\$170.6 paid at closing and \$92 million paid on October 1, 2011), plus up to an additional \$50 million from the wastewater general fund that will remain with the City upon the transfer of the wastewater system.

In addition, the proposed transfer will increase the annual payment in lieu of property taxes (PILOT) as a result of the significant capital spending associated with the Wastewater System. The City will monetize the increase of PILOT payments in the form of a bond issuance with anticipated proceeds of \$140 million, with such proceeds used by the City to fund necessary infrastructure improvements (with Citizens assuming the obligation to pay the increased PILOT). In addition, Citizens agrees to assume approximately \$1.5 billion of City debt (combined debt of waterworks and wastewater).



A pothole at the intersection of Illinois Street and 13th Street illustrates the constant need to fill potholes.

The proceeds generated from the transfer of the Utilities will be directly invested in community infrastructure. The specific allocation of the funds will be influenced by input from the City-County Council as well as from local residents and industry through public forums.

Citizens is committed to utility and community investments. Citizens will efficiently make the necessary investments in utility infrastructure to ensure system reliability and compliance with federal and state environmental mandates, including a Consent Decree with the U.S. Environmental Protection Agency. Specifically, Citizens will invest the necessary resources to address the City's raw sewage overflow problem that leads to the pollution of the White River and other streams. It also is committed to



Stormwater projects are targeting neighborhood and street flooding throughout Marion County.

converting septic systems throughout the City to the sewer system.

Citizens has put nearly \$50 million of revenue from non-utility companies it owns back into the community over the past decade to fund gas customer rate reductions, low-income energy assistance, home weatherization programs, neighborhood redevelopment projects like Fall Creek Place and donations to a wide range of nonprofit organizations.

Public and Transparent Process

The City and Citizens remain committed to full transparency in the coming months as the approval process moves forward. It is of great importance to Mayor Ballard that the public conversation regarding the transfer continues.

To answer resident and ratepayer questions, the City will hold public forums to review the agreement. A special Web site, www.indy.gov/utilities, will provide information to the community and seek input from residents.

Before closing on the transfer, it must be approved by the Waterworks Board, Board of Public Works and the City-County Council. After approval by the City-County Council, the proposed utility transfer will be thoroughly reviewed by the IURC. The IURC is a fact-finding body that is required by state statute to make decisions that balance the interests of all parties to ensure the utilities provide adequate and reliable service at a reasonable price. Final approval of the transfer is not expected until late this year.

Taking Politics Out of Utilities

More than a century ago, community leaders, including Colonel Eli Lilly, put our community's natural gas system into the Citizens Public Charitable Trust to protect it from sale to profit-making corporations and the uncertainties of changing political forces. Today's proposed utility transfers heed the lessons of history by keeping our community's water and wastewater systems in the hands of the people. Local ownership and management for community benefit, lower rates and outstanding service make Citizens Energy Group the best choice to own and manage our community's water systems.